Appendix A

Additional Instructions Relating to Investment Procedures

To carry out the objectives of the Investment Policy, the Metropolitan Government of Nashville and Davidson County has hired Payden & Rygel Investment Counsel to serve as Investment Manager. All investment and trading activity for the Metro portfolio must be conducted in accordance with the Investment Policy and the additional investment restrictions listed below.

DIVERSIFICATION

Each portfolio will be diversified so that no more than 10% of its value will be invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government or an Agency thereof.

The maximum percentage of each portfolio permitted in each eligible security is as follows:

U.S. Treasury/Agency	100% maximum
Repurchase Agreements	20% maximum
Insured/Collateralized Certificates of Deposit	15% maximum
Commercial Paper	30% maximum
Bankers' Acceptances	20% maximum
Corporate Obligations (CP plus BAs)	30% maximum
Tennessee LGIP	100% maximum

MATURITY LIMITATIONS

A. No funds, other than bond proceeds, are to be invested for a maturity of greater than two (2) years without the approval of the State Director of Local Finance.

B. The Metro Investment Pool shall be a bifurcated pool. The short portion of the pool will have an average term to maturity of no greater than 180 days. The long portion of the pool will have a target average maturity of 1.3 to 1.5 years and target average duration of 1.0 years. The benchmark for the long portion will be a combination of the six month U.S. Treasury Bill and the Two-Year U.S. Treasury Note with a 50:50 weighting to function in a one year capacity. The benchmark for the short portion will be the Three-month U.S. Treasury Bill. The Metro Investment Pool will benchmark against a customized index consisting of 70:30 weighting composed of the blend of seventy percent of the Six-Month U.S. Treasury Bill and thirty percent of the six-month LIBOR rate.

C. Proceeds from the sale of bonds should be invested in compliance with any specific requirements of the bond covenants in a manner that will provide sufficient liquidity without further restriction as to the maximum term to maturity of securities purchased.

D. The maximum term to maturity of specific eligible securities are as follows:

Repurchase Agreements	90 days
Commercial Paper	180 days
Bankers' Acceptances	180 days
Insured/Collateralized Certificates of Deposit	1 year

E. Water and Sewer Extention Replacement funds can be invested both in the Metro Investment Pool and in a Separate Portfolio. The Separate Portfolio may purchase investments with final maturities of four years. The average maturity of the Separate Portfolio will be two years. The Separate Portfolio will be benchmarked against the Merrill Lynch 1-3 year Index.

REPURCHASE AGREEMENTS

Metro may purchase obligations of the United States or its agencies under a repurchase agreement provided that the following conditions are met:

A. a master repurchase agreement or specific written, repurchase agreement approved by the State Director of Local Finance governs the transaction; and

B. the securities are held free and clear of any lien by an independent third party acting solely as agent for Metro, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $25 million; and

C. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. of 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of Metro; and

D. the market value of the collateral including accrued interest must be equal to 102% of the amount of cash transferred by Metro to the dealer bank or security firm under the repo plus accrued interest when the maturity date of the collateral is 10 years or less. The market value of the collateral including accrued interest must be equal to 103% of the amount of cash transferred by Metro to the dealer bank or security firm under the repo plus accrued interest when the maturity date of the collateral is greater than 10 years. If the value of securities held as collateral slips below 102%/103% of the value of the cash transferred, then additional cash and/or acceptable securities must be delivered to the third party custodian; and

E. for repurchase agreements with terms to maturity of greater than one (1) day, the value of the collateral securities will be continuously monitored and, if additional collateral is required then that collateral must be delivered within two business days. If a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated; and

F. all repurchase agreements will be collateralized by obligations of the United States government or any of its Agencies for a shorter time than the maturity date of the collateral security itself; and

G. Metro will enter into repurchase agreements only with (i) primary government securities dealers who report daily to the Federal Reserve Bank of New York or (ii) any bank, savings and loan association or diversified securities broker-dealer subject to regulation of capital standards by any state or federal regulatory agency. Prospective counter parties must qualify under the following criteria to be eligible:

1) Must have short-term credit rating of at least A1/P-1; and
2) Must have a minimum asset and capital size of:
    a) $25 billion in assets and $350 million in capital if the counter party is designated a primary dealer; or
    b) $5 billion in assets and $500 million in capital if the counter party is a bank, savings and loan association or diversified securities broker-dealer; and
3) Must have been in operation for at least 5 years; and
4) Must be reputable among market participants; and
5) Must be capable of paying a competitive market yield; and

H. in no case shall the seller under a repurchase agreement be the custodian.

COMMERCIAL PAPER

The following terms and conditions shall apply to investment in commercial paper:

A. only commercial paper which is rated at least A-1 or the equivalent by at least two (2) nationally recognized rating services may be purchased;

B. commercial paper acquisition will be monitored to assure that no more than three percent (3%) of the portfolio book value at the date of acquisition or $15,000,000, whichever is less, shall be invested in commercial paper of a single issuing corporation. The total holdings of an issuers' paper should not represent more than 2% of the issuing corporation's total outstanding commercial paper;

C. purchases of commercial paper shall not exceed thirty (30%) of the portfolio book value at the date of acquisition;

D. purchase must be limited to corporations that meet the following criteria:

1. If the corporation has senior long term debt it must have a minimum rating of "A1" or equivalent and a short term debt minimum rating of "A1" or equivalent as provided by a majority of the rating services that rate the issuer. If there is no long term debt rating of the issuer, the short term debt rating must be "A1" or equivalent by all of the rating services that rate the issuer. Under all circumstances, a minimum of two short term debt ratings must be available.

2. The commercial paper rating must be based on the merits of the issuer or guarantee/agreement of a non-bank corporation, and not be backed by a letter of credit or insurance from a third party;

E. financial information should be obtained for reference on all corporations issuing commercial paper owned by Metro;

F. issues may be acquired from authorized broker/dealers or directly from an eligible issuer; and

G. commercial paper of depository institutions or of a holding company thereof shall not be held as part of this portfolio. Investments in banks should be as a depositor rather than as a creditor. Other finance company commercial paper is eligible for investment pursuant to the credit guidelines previously described.

BANKERS' ACCEPTANCES

The following terms and conditions shall apply to investment in bankers' acceptances:

A. only prime bankers' acceptances which are eligible for purchase by the federal reserve system as required by TCA 9-4-602(a)(1) may be purchased;

B. bankers' acceptances must be issued by domestic banks with a minimum long term debt rating of "AA" or foreign banks with a "AAA" long term debt rating by a majority of the rating services that have rated the issuer. The short term debt rating must be a least "A1" or equivalent by all of the rating services that rate the issuer (minimum of two ratings must be available);

C. bankers' acceptances shall not exceed twenty percent (20%) of the portfolio's book value on the date of acquisition. The amount invested in any one commercial bank pursuant to this paragraph cannot exceed three percent (3%) of the book value of the portfolio on the date of acquisition or $15,000,000, whichever is less; and

D. a bankers' acceptance must:

    1. arise out of the current shipment of goods between countries or within the United States, or

    2. arise out of storage within the United States of goods under contract of sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

VARIABLE RATE NOTES

All investments purchased for the Metro portfolio will have a stated, fixed rate of return. The use of variable rate notes (VRNs) or structured notes is not permitted.

CERTIFICATES OF DEPOSIT

The following terms and conditions shall apply to investment in certificates of deposit:

A. metro will purchase certificates of deposit and other evidence of deposit only from Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations.

B. all deposits shall be secured by the following securities:

1. bonds of the United States or any of its agencies;

2. obligations guaranteed by the United States or any of its agencies, the payments of which are fully guaranteed both as to principal and interest by the United States;

3. obligations guaranteed by the Tennessee Industrial Development Authority not to exceed the amount of the guarantee;

4. bonds of the State of Tennessee including any revenue bond issued by any agency of the state specifically including institutions under the control of the State Board of Regents, the Board of Trustees of the University of Tennessee and Bonds issued in the name of the State School Board Authority; or

5. the State of Tennessee Collateral Pool.

REPORTING REQUIREMENTS

On a monthly basis, the Investment Manager will provide the Metropolitan Treasurer with the following reports: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturities, return, and other features deemed relevant, (ii) the total investment earnings for the reporting period, and (iii) a listing of all transactions executed during the month.

Approved

Director of Finance

Date 3/14/02